

London Borough of Hammersmith & Fulham

Pensions Sub-Committee

Minutes



Wednesday 21 September 2016

PRESENT

Committee members: Councillors Michael Adam, Nicholas Botterill and Iain Cassidy (Chair)

Officers: George Bruce (Director of Treasury and Pensions), Nicola Webb (Pension Fund Officer), David Coates (Head of Payroll and Pensions), and David Abbott (Committee Coordinator)

External: Graeme Muir (Fund Actuary - Partner at Barnett Waddingham LLP) and Alistair Sutherland (Deloitte)

1. MINUTES OF THE PREVIOUS MEETING

RESOLVED

That the minutes of the meeting held on 22 June 2016 were agreed as a correct record and were signed by the Chair.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Guy Vincent and PJ Murphy.

3. DECLARATIONS OF INTEREST

There were no declarations of interest.

4. PENSION FUND QUARTERLY UPDATE PACK

Nicola Webb presented the quarterly update pack for the quarter ended 30 June 2016. She noted that the operational management of the London CIV had been added as a new risk to the risk register. A forward plan for the Pensions Sub-Committee had also been added to the update report and in future would be included each quarter for consideration.

Alistair Sutherland gave an investment update, noting that markets had been volatile over the period, the Bank of England had announced a programme to buy gilts and corporates bonds, and yields were expected to drop even lower for longer.

Councillor Michael Adam asked for an update on the managers performance, particularly Majedie, following the EU referendum vote. Alistair Sutherland said managers had reported a great end to the quarter. Some property funds had been struggling since the referendum but those were in the retail sector – the Council’s funds had not been affected.

Councillor Adam, with reference to the returns on page 16 of the agenda, asked why one-year performance was below the benchmark. Alistair Sutherland responded that the biggest impacts had been Madjedie and Standard Life. Madjedie had been too early on some positions, though they’ve said this has now been resolved. Standard Life suffered in comparison to others as it was a property fund with a gilts benchmark and gilts had hugely outperformed. They were looking at new opportunities, supermarkets etc., to catch up over the next year to eighteen months.

Councillor Nicholas Botterill asked if officers had a more recent headline valuation of the fund. Officers responded that at the end of July it was around £920,000,000.

4.6 Councillor Adam requested an analysis of the underlying risks across different asset classes. Officers said they would bring this to the next meeting.

The Chair asked if the pensions element of the Statement of Accounts had been completed. Nicola Webb responded that the auditor required some further clarifications around membership data from Surrey County Council – that information had now been provided and the final opinion was due shortly.

RESOLVED

That the Pensions Sub-Committee noted the report.

5. LONDON CIV UPDATE

Nicola Webb presented the report and noted that the final asset pooling response was submitted to Government in July 2016 and, in the meantime, progress had been made with transitioning assets to the London CIV with the transfer of the Ruffer assets taking place during the summer.

There had been delays with the LGIM transfer due to the complexity of the legal structure. It had been decided that the Fund should retain management of assets but will benefit from reduced fees (backdated).

The London CIV was in the process of agreeing terms for Majedie’s UK equity fund to be added to the range of funds available. Discussions were ongoing and a recommendation would come to the November meeting.

RESOLVED

That the Sub-Committee agree that an investment is made in the LGIM passive emerging market equity fund as soon as it is possible to do so, utilising the cash set aside for this purpose.

6. PENSION FUND INVESTMENT REBALANCING

Nicola Webb presented the report and noted that, following discussion at the last meeting in June 2016 and the provision of additional information from the investment adviser by email, a withdrawal of £38m from the UK equity portfolio managed by Majedie took place in August. This was followed by investments of £22m into the Insight Bonds plus fund and £16m into the Oak Hill Advisers Diversified Credit Strategies Fund.

Councillor Adam asked if the fund was still overweight in overseas equities. Nicola Webb said it was but remained underweight on infrastructure.

RESOLVED

That the sub-committee note the actions taken to rebalance the Fund's investments closer to the targets set out in the Statement of Investment Principles.

7. FUND MANAGER MONITORING

Nicola Webb presented the report that proposed fund manager monitoring sessions for members of the Pensions Sub-Committee to meet with all of the Fund's investment managers.

RESOLVED

That the Pensions Sub-Committee noted the report.

8. PENSION FUND ACTUARIAL VALUATION UPDATE

George Bruce presented the report and noted that the actuarial valuation as at 31st March 2016 was underway and all data has been submitted, although the resolution of data queries was ongoing.

The Fund Actuary, Graeme Muir of Barnett Waddingham, circulated slides with an overview of the valuation. He noted that the valuation answered a key question – how much do employers need to pay into the fund to have enough assets to pay future benefits?

Under challenges he noted a possible review of the employer cost cap and the likelihood that the scheme would be revised from 2020. He also noted that the introduction of league tables may lead to a 'gravitation to the middle'. There was also a danger associated with the minimum funding requirement – that setting a benchmark leads to just meeting it rather than exceeding it.

Graeme Muir reported that they were carrying out a mortality review, both to measure the current rates but also looking to the future. There had been continuous improvement in mortality of 2 percent per year from 2000 to 2014 but the following years had seen no increase – it was not yet known whether this was a temporary dip or a more permanent change.

Graeme Muir drew member's attention to the slide showing the 2013 valuation results. He noted the funding level in 2013 was 83% and the figure of 13.6 percent of pensionable pay needed to meet with cost of new benefits. He stated he anticipated the funding level at 2016 would be in the range of 80 – 85 percent. Councillor Nicholas Botterill asked if the funding level of 80 - 85 percent was the same for other comparable funds. Graeme Muir responded that there was a wide range, from 65 to over 100 percent. The average in 2013 was 90 percent.

The next steps involved finalising the data, agreeing assumptions, and considering employer contributions. Then the funding strategy would have to be reviewed and the individual results would be communicated to employers – this would be agreed and signed off by 31 March 2017. George Bruce noted that the employer-specific results would come to the November meeting.

RESOLVED

That the Sub-Committee noted the report.

9. ANNUAL REVIEW OF PENSION BOARD ACTIVITIES

Nicola Webb presented the report and noted that the Pensions Board's terms of reference required it to prepare an annual report on its activities and its compliance with the terms of reference. The report was addressed to Full Council each year and submitted to the Pensions Sub-committee for noting prior to submission to Council. The report summarised the work undertaken by the Board during the year.

RESOLVED

That the Pensions Sub-Committee noted the report.

10. COMMUNICATIONS POLICY UPDATE

David Coates presented the revised Communications Policy Statement. He noted that the policy statement had gone to the Pension's board who had approved it but wanted more done for current pensioners in future. In response to this a newsletter was planned for next March addressing these concerns. A draft would be sent to the Pensions Board for comment and approval.

The Chair asked if there had been any feedback on the new website. David Coates responded that feedback had been reasonably positive.

RESOLVED

That the Sub-Committee approve the revised version of the Communication Policy Statement.

11. PENSIONS ADMINISTRATION STRATEGY

David Coates presented the Pensions Administration Strategy report and noted that officers did a lot of work to get all returns in on time this year. He said the employers seminar was a big help in preparing the employers for year end and they were proposing to do the same next year.

Councillor Nicholas Botterill asked if the employers had been consulted on the proposals and provisions to levy charges. David Coates responded that they had not been consulted and the levying of charges would be a last resort. The current approach was to encourage employers to comply with their requirements.

George Bruce asked how officers were getting access to performance data now that Surrey County Council was providing the service. David Coates noted that officers had met with Surrey to discuss monitoring and a proposal would go out to employers on monitoring shortly. George Bruce also questioned the value of having compliance targets of below 100 percent. Officers said they would look again at the targets.

RESOLVED

1. That the committee approve the implementation of a PAS as shown in Appendix 1 of the report.
2. That the PAS has an implementation date of 1 January 2017.

12. PENSIONS ENGAGEMENT POLICY

David Coates presented the report that sought approval for the pensions engagement strategy, including a Pensions Annual General Meeting.

Councillor Michael Adam asked officers for feedback from similar events in partner boroughs. George Bruce responded that around 15 people attended the previous Westminster City Council meeting, the numbers tended to reduce year-on-year, and most of the questions were individual member queries about the transfer to Surrey County Council. Improvements to the pensions statements have likely mitigated many of the issues that would have been raised in the past.

Councillor Nicholas Botterill suggested holding pensions workshops or drop-in sessions around existing events – the Leader’s staff roadshows for example. Officers noted that the Council had run drop-in sessions in the past to discuss specific issues with members and they were planning to reintroduce them next summer.

The Chair summarised that the Sub-Committee supported some form of public event but did not necessarily see the value in holding it every year. They recommended a scaled-back event of around an hour that was focused on existing scheme members. After the event had taken place it should then be reviewed before a decision was made on the pattern of meetings going forward.

RESOLVED

1. That the Sub-Committee approved in principle the concept of a pensions engagement strategy as detailed in Appendix 1 of the report.
2. That the Sub-Committee approved a proposal to hold a one-off pensions event focused on existing scheme members.

13. PENSION FUND INVESTMENT STRATEGY

George Bruce presented the investment strategy report that provided information about the correlations which exist between the Fund's current investments following a request from members at the last meeting. He noted that the analysis showed the Fund was reasonably well diversified and should be equipped to weather a sustained period of market stress better than funds where there was a greater reliance on equities to deliver the return.

Councillor Michael Adam commented that UK inflation could rise (historically it was sensitive to drops in sterling) and officers should consider the current matches and mismatches between inflation, assets, and liabilities.

Alistair Sutherland responded that inflation remained a key risk and he could look again at asset classes that had explicit inflation sensitivities – and asset classes where there were opportunities in that scenario.

RESOLVED

That the Sub-Committee noted the report.

14. DATE OF THE NEXT MEETING

The next meeting was scheduled for 23 November 2016.

15. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED

That under Section 100A(4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

16. PENSION FUND INVESTMENT STRATEGY - EXEMPT ELEMENTS

RESOLVED

That the Sub-Committee noted the report.

Meeting started: 7.00 pm
Meeting ended: 9.00 pm

Chair

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